

11 May 2017



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**Grower-driven advocacy for
a profitable grains industry**

Dear Mr Peevor,

Re: Inquiry into the South Australian bulk grain supply chain costs

Please find following a submission (Part 1) from Grain Producers SA Ltd (GPSA) regarding ESCOSA's inquiry into the South Australian bulk grain supply chain costs.

GPSA welcomes the emphasis on understanding the grain industry and long-term approach being adopted by government. The provision of consistency in infrastructure, transparency and accountability is critical to providing the best investment framework for all involved in exporting grain from South Australia.

GPSA thanks ESCOSA for the opportunity to make this submission and would welcome an opportunity to meet with you to discuss this submission or answer any specific questions or concerns.

Yours sincerely

A handwritten signature in black ink, appearing to read "Darren Arney", is positioned above the printed name.

Darren Arney
Chief Executive Officer

About Grain Producers SA

Grain Producers SA (GPSA) is the peak industry body representing South Australian grain producers.

GPSA's objectives are to improve the profitability and sustainability of South Australian grain producers through:

- Representing the views of South Australian grain producers to government, industry and the community on grains issues;
- Working with an effective state farming organisation and other commodity groups to represent South Australian grain producers on cross commodity issues;
- Working with government and industry to develop policies around creating and maintaining an efficient, accessible and cost effective supply chain;
- Working with government, industry and institutions to improve the technical and business skills of South Australian grain producers
- Working with Research, Development and Extension organisations to identify and disseminate research priorities in grain production, handling and management
- Supporting an effective national representative organisation to work with government around national initiatives to support the grains industry
- Providing a program to include and develop young farmers to be prepared to take on leadership roles within the SA grains industry.

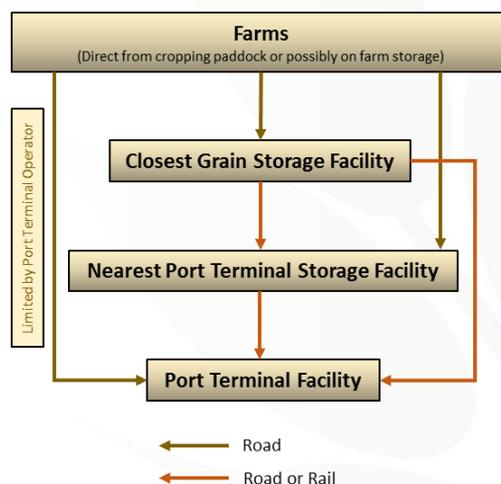
Background

South Australia's grain industries make a significant contribution to the economy. With an estimated farm gate value of over \$1.8 billion and export value of \$2.2 billion, the grains industry is not only a major contributor to the economy it is also a significant export earner. In addition, the agribusiness sector is a major provider of jobs employing approximately 1 in 5 South Australian workers.

Despite the volume, value and importance of the grains industry to this state, increasingly we are seeing the profitability of grain production being challenged by ever increasing costs and competing land uses. A major impediment to industry growth are bulk grain supply chain costs and the lack of transparency to free on board (FOB) at port terminal, which effects income potential for all industry participants.

Part 1 (i) The components of the bulk grain export supply chain costs (including vessel loading charges) and their efficiency

South Australia's grain growers depend on well organised and managed bulk grain export supply pathways that demonstrate the key properties of effective logistics management. The following diagram illustrates the typical stages of South Australia's supply and demand management network.



Leading the supply chain is a global agriculture commodity business that is vertically integrated and describes itself as involved in all aspects in origination, handling, processing and marketing of agricultural commodities, including grains, oilseeds and pulses. Glencore Agriculture¹ is owned by Glencore, Canada Pension Fund and British Columbia Management Corporation and in South Australia trades as Glencore Grain and Viterra.

For the receipt, handling, storage and port terminal loading of bulk grain to export there are significant economies of scale (i.e. size of port matters for port efficiency²) and it is not considered as important for the grain grower to have choice. Since 2004 when AusBulk Ltd was acquired by ABB Grain Ltd the supply chain infrastructure has not attracted competition of equal level. Few entrants exist as small-scale grain export service operations, such as Cargill's temporary arrangements (Minerals Berth 29) and Semaphore Containers (Osborne). These entrants have predominated in the Port Adelaide shipping zone and are considered by GPSA as having an insignificant impact on total tonnages exported when compared with Viterra.

South Australia is renowned for its quality grains. The state's prime farming lands have earned an international reputation for quality and an equally supportive bulk grain export supply network is essential. Grain delivery in a timely, convenient and economical manner with segregation options are the main factors during harvest. In 2016/17, Viterra responded to higher than anticipated harvest volumes by promptly constructing around 900,000 tonnes of additional storage space.

All bulk grain export supply chain fees and charges are compiled by buyers of grain delivered by growers and lacks transparency as it is at the buyer's discretion how they reflect these costs in their

¹ Glencore Agriculture - <http://www.glencoreagriculture.com/who-we-are/at-a-glance>

² Merk, O., & Dang, T. T. (2012). Efficiency of world ports in container and bulk cargo (oil, coal, ores and grain). Paris: Organisation for Economic Cooperation and Development (OECD)

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site based pricing. Because GPSA does not sell grain, only publicly available information can be accessed to reveal fees and charges administered back to growers when a payment is made. Consider the storage and handling cost component assumed by a grain buyer, in this example, the CBH Group for 100 tonnes of APW1 wheat using Viterra's storage and handling facilities compared with its own in Western Australia:

Table 1: Marketer	Bulk grain export supply chain costs (including vessel loading charges)	Estimated Silo Return 2016/17
CBH Group Marketing & Trading Arm (Pool Calculator) ³ May 2017	\$51.41 (deducted from Grower payment) *Freight \$1.75 *Levies \$2.48	Product: Harvest Pool 1 Site: Port Adelaide Terminal Grade: APW1 Handler: Viterra
CBH Group Marketing & Trading Arm (Pool Calculator) May 2017	\$23.34 (deducted from Grower payment) *Levies \$2.54	Product: Harvest Pool 1 Site: Kwinana Terminal Grade: APW1 Handler: CBH
	\$10.80 (billed direct to Grower)	WA Reveal Fee ⁴
Cost Difference (per tonne)	\$17.27	

Table 1 shows a difference of \$17.27 per tonne for the same grain, tonnage, marketer and product, but differing supply chain and port terminal service provider. Other public accessible grain quote calculators such as AWB⁵ that is net of all product management, establishment, operating and marketing costs do not identify the Viterra supply chain cost. There is a lack of transparency as the reason for a difference in supply chain cost or unspecified net payment is unclear. For further comparison using Viterra's published flow chart to illustrate a marketer's supply chain options and fees for exporting a major wheat grade through their storage and handling network see the calculations in table 2 below:

Table 2	Bulk grain export supply chain costs (including vessel loading charges)	Comments
CBH Group Marketing & Trading Arm (Pool Calculator) May 2017	\$51.41 (ESR - deducted from Grower payment) *Freight \$1.75 *Levies \$2.48	Product: Harvest Pool 1 Site: Port Adelaide Terminal Grade: APW1 Handler: Viterra
Viterra (Export supply chain fees 2016/17 explained) ⁶	\$35.07 (Grower delivery to Export Select sites upcountry) *Levies not published ⁴	2016/17
Cost Difference (per tonne)	\$16.34	

³ <https://poolcalculator.cbh.com.au/Home>

⁴ https://www.cbh.com.au/~media/2014-15%20grain%20marketing%20guide%20sep_14.ashx

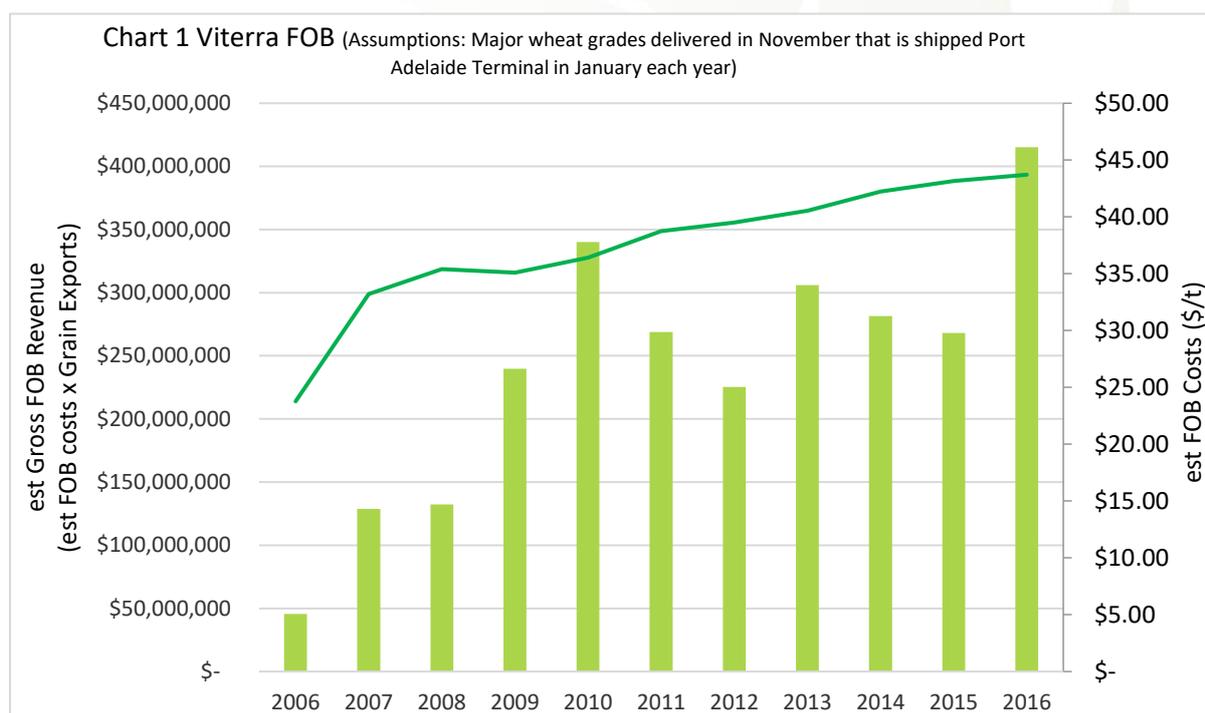
⁵ <http://www.awb.com.au/growers/awbgrainprices/esr>

⁶ http://www.viterra.com.au/uploads/Export%20Supply%20Chain%20Fees%20Explained%202016_17.pdf

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The comparison between a third-party marketer (CBH) and Viterra’s published supply chain fees in Table 2 shows a difference of \$16.34 per tonne. The reason for a difference in supply chain cost is undetermined. Good grain production managers can make smart decisions about how to become more profitable by controlling transparent on-farm costs, such as machinery upgrades or the cost of sowing a crop. But bulk grain export supply chain costs (including vessel loading charges) cannot be passed back any further and grain growers pay the ultimate cost as a result.

Chart 1 shows GPSA’s attempt at calculating a storage and handling cost to FOB. Based on Viterra’s publicly available Storage and Handling Charges Schedule⁷. The reason for escalating cost per tonne is unknown. The benefit of economies of scale and lower average operating costs does not appear to have flowed through to lower charges for users of the bulk grain export supply chain.



A further concern is the threat to South Australia’s recognition as a supplier of higher quality grains and competitive position in world markets. By having control of vessel loading, the upstream storage and handling businesses are responsible for the sampling and receival standards, controlling segregations, undertaking selected blending and reserving grains to meet customer specifications effectively making available a particular lot of grain to meet the required grade standards for a customer. There is the potential for the ‘devaluing’ of higher than specified grain by way of blending with or to lesser lower grades. It is unclear how the benefit of blending grain grades is shared amongst other holders of the same commodity in the supply chain who aspire to be sellers to international markets. The current grading system with blending benefits is impossible to quantify and any benefit may not be shared with other marketers or passed back to grain growers. There is no certainty a grain owner or warehouse will receive the same grain they paid for or harvested.

⁷ Viterra Schedule A – Storage & Handling Charges
[http://www.viterra.com.au/uploads/Pricing,Procedures%20and%20Protocols%20Manual%202016_17%20\(Schedule%20A%20\).pdf](http://www.viterra.com.au/uploads/Pricing,Procedures%20and%20Protocols%20Manual%202016_17%20(Schedule%20A%20).pdf)

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These practices may lead to grain buyers factoring in a supply chain 'risk cost' for receiving back a lesser quality commodity than was originally purchased and stored.

South Australia's providential port infrastructure and port terminal service operators have a consolidated interest in maximising volume through bulk grain export terminals. Protocols to allocate and contract capacity, and to order and manage vessels for loading are certainly required for orderly vessel loading. Access arrangements designed to increase transparency of available capacity, pricing and stock information would be of benefit to any export marketer. But clearly a major beneficiary of efficiencies gained and for risk reduction are the port infrastructure and port terminal service operators. ESCOSA's Ports price monitoring report 2016 states:

'Flinders Ports has advised the Commission that ports users were consulted prior to the implementation of the 2016-17 price increases, and that no concerns relating to these prices were raised. In addition, no concerns have been raised with the Commission over price increases following their publication by Flinders Ports'⁸.

Who is negotiating rigorously for lower charge rates per tonne for increasing tonnages loaded at South Australia's port terminals? Is it acceptable to simply pass increased fees and charges back to grain growers year on year? Do grain owners have commodities by ownership in place for shipment prior to vessel loading? Increasing average export grain tonnages combined with in advance planned shipping stems⁹ (2018/19) gives known quantities, qualities and timing to further enhance economies of scale? GPSA believes such questions must lead to wider and further investigation about how to best share bulk grain supply chain efficiencies.

Part 1 (ii) Harvest trends in South Australia over the past 10 years

Harvest Trend Data

Grain production continues to grow in volume on lower areas sown as shown in chart 1 and 2 below. This long-term trend suggests increasing production is not only due to timely rain events, but improved agronomic practices by grain producers and the utilisation of varieties that are returning higher yields. Growers contribute Nationally¹⁰ and State based¹¹ to research and development that the whole industry sector benefits by with higher productivity.

According to ABS¹² statistics, the land used mainly for all crops (including grain) in South Australia in 2014/15 was farmed by 8,083 farming businesses, down 27% from 11,066 as reported by ABS¹³ for 2007/08. Significantly South Australia is losing grain producing land and grain producing businesses but those remaining are increasing grain production. On a very uneven playing field the innovativeness of South Australian farmers continues to capture higher yield opportunities.

⁸ ESCOSA Ports price monitoring report 2016 <http://www.escosa.sa.gov.au/projects-and-publications/projects/ports/ports-price-monitoring-report-2016/ports-price-monitoring-report-2016>

⁹ Viterra [2018-2019 Available Long Term Shipping Capacity](#)

¹⁰ <https://grdc.com.au/uploads/documents/Your%20GRDC%20Levy%203.pdf>

¹¹ <http://www.sagit.com.au/commitment-to-growers>

¹² 46270DO001_201415 Land Management and Farming in Australia-2014-15

¹³ 46270DO001_200708 Land Management and Farming in Australia, 2007-08

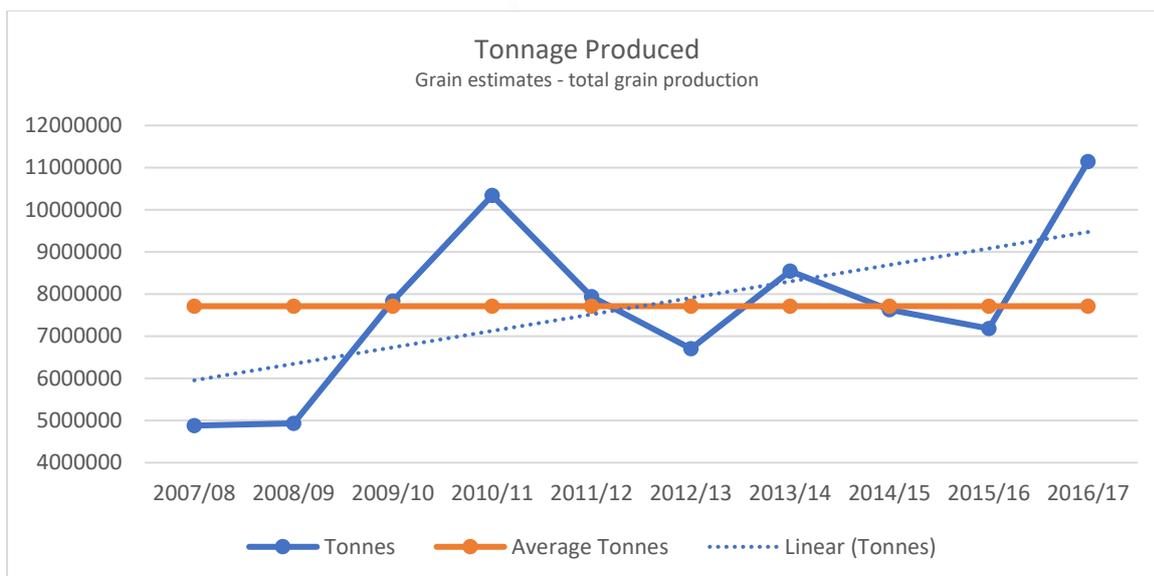


Chart 1 Source: PIRSA Crop and Pasture Report South Australia

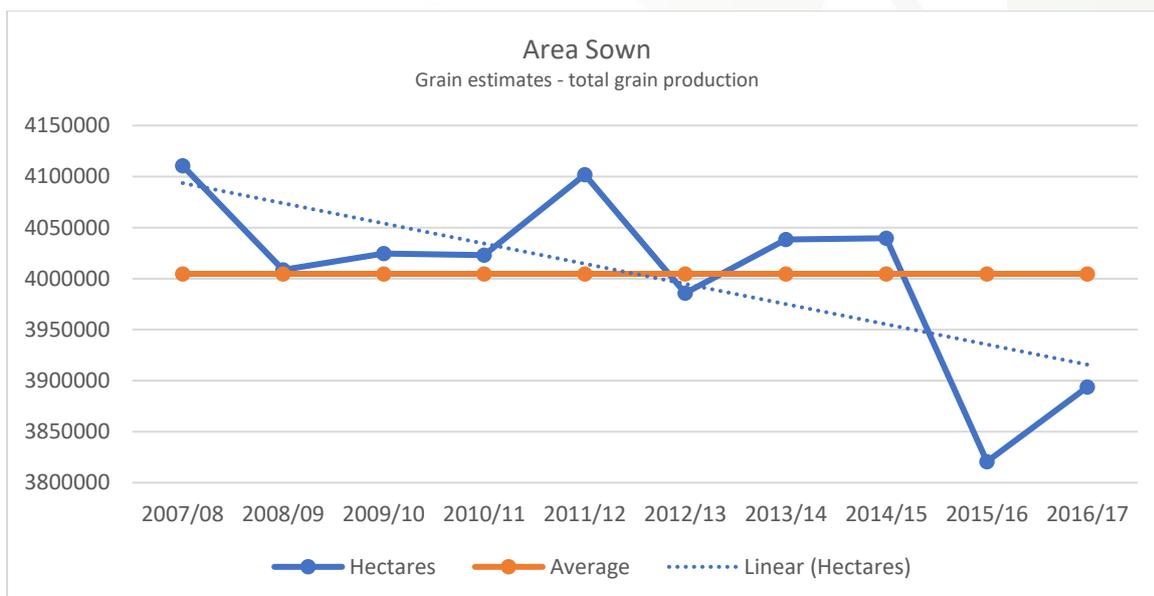


Chart 2 Source: PIRSA Crop and Pasture Report South Australia

Part 1 (iii) The basis upon which road and rail components of the bulk grain export supply chain costs are recovered.

A Location Differential (LD) is used by the grain industry and is based on the Viterro Export Select values. A LD is a value attributed to a specific upcountry grain bulk storage and handling facility to an export port terminal. There may be multiple values for an upcountry site to various port terminals. These LDs are provided to members by the Grain Trade Australia Commerce Committee (GTA) for valuing upcountry grain on a ‘port basis’. GTA state LDs are not freight rates or freight differentials. The consignor of the road and rail components will usually be the owner of the grain. There may be

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a difference in the freight rate paid per tonne at the time of the grain movement by the consignor to port terminal and the LD deducted from the grower payment at the first point of sale.

Incongruence occurs in the charges back to grain growers when upcountry sites have multiple Natural Terminal Port(s) (NTP). GTA states the determination of NTP for a site, rail transportation to a port takes precedence over road transportation to that same port. Further, where a port and tributary up country rail site are connected by rail, the NTP for that site will be the port with the lowest LD and where an up-country site has only road access, the NTP for that site, will be the port with the lowest LD¹⁴. An upcountry site may have an NTP LD¹⁵ for 2 or more port terminals. The NTP LD may be small but the highest cash grain price may be based on a differing port terminal. The effect on the grain grower is to either accept a lower cash price and deliver to the site or travel elsewhere to obtain a higher cash price that has possibly a higher LD but receives a better net cash payment. This inefficient allocation of resources occurs at the same time as peak demand for harvesting equipment and trucking. Additionally, at the unfavourably priced upcountry site the grain buyer that moves the stock to a port terminal has choice to go to a more attractively priced port terminal. It is the grain grower who suffers a 'notional' loss due to the way LDs have already been allocated and administered back to the grain grower.

Viterra provides Export Select as a bundled service for customers to move grain from upcountry receival sites to its serviced port terminal. Transport rates are fixed at the time of transfer into the Export Select system. There may be a rebate for customers using Export Select. Of significance is that various sites are designated Export Select only. Elsewhere Viterra customers can use the export standard system and de-bundle handling and freight components to allow each to organise their own transport from upcountry site to port.

Negotiations between the rail service provider and its client or potential clients are not made public. Therefore, the basis upon which the rail fees and charges are devised is unclear. There are no new participants choosing to use rail services of the defunct Mallee line and Eyre Peninsula rail line, which is near its agreement expiry date. A primary concern is the lack of transparency around the negotiations and ultimately agreements between supplier and client as these costs are passed back to the grain producer as the ultimate payer. Of note is the Mindarie mineral sands project near Halidon chose road freight rather than rail citing "road option provides lower cost, safer and faster solution"¹⁶.

GPSA considers that the current Rail Access Regime (RAR) has been ineffective in accommodating competition:

- There has been no additional competition since the Railways (Operations and Access) Act¹⁷ was introduced
- A declining amount of SA's grain is transported by rail each season
- Reasonable maintenance levels and longevity of rail lines are in jeopardy¹⁸

¹⁴ Grain Trade Australia - Development of GTA LDs (LDs)

<http://www.graintrade.org.au/sites/default/files/file/About%20GTA/Development%20of%20GTA%20Location%20Differentials%20Final%20April%202016.pdf>

¹⁵ Grain Trade Australia - (LDs) [http://www.graintrade.org.au/sites/default/files/file/Location%20Differentials/2016-](http://www.graintrade.org.au/sites/default/files/file/Location%20Differentials/2016-17%20GTA%20Location%20Differentials%20SA_amended%20final%2005%20Oct%202016a.pdf)

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¹⁶ [RDA - Freight Study & Rail Operations Investigation - SA Mallee](#)

¹⁷ [https://www.legislation.sa.gov.au/LZ/C/A/RAILWAYS%20\(OPERATIONS%20AND%20ACCESS\)%20ACT%201997/CURRENT/1997.55.UN.PDF](https://www.legislation.sa.gov.au/LZ/C/A/RAILWAYS%20(OPERATIONS%20AND%20ACCESS)%20ACT%201997/CURRENT/1997.55.UN.PDF)

¹⁸ [DPTI - Mallee rail lines to be used this season](#)

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The RAR is in part, an essential service operation that has continued for longer than might have been expected in an unregulated market place. There is a risk that should the RAR be allowed to expire that unrestrained and uncontrolled price rises would make rail more uncompetitive and hasten demise of the service option. Without the current RAR there would be even less incentive for the movement of grain by rail versus road, potentially inciting broader grain grower disquiet.

Issues arising for the provision and efficiency of the rail services are the effect of proposed new mining ventures on Eyre Peninsula. With the rail and port components for the Central Eyre Iron Project¹⁹ declared a priority Project by Infrastructure Australia in September 2016, will these operations require infrastructure to transport product to port terminals that could possibly work in with grain transportation? If any of these projects were to become operational and share rail corridors the need for an effective RAR would be more pronounced.

Storage and handling charges and fees from Viterra are published and are passed back to grain growers as supply chain cost deductions or charges. For example, what are the technical and financial basis for the addition of shrinkage and dust charges? Why should the grain grower making the first sale into the storage and handling system be the cost payer for an operational risk? Based on publicly available information it is not possible to prove road and rail cost components of the bulk grain export supply chain as cost inefficient or cost efficient. The release of further information by agreement of those who own the grain and ship the grain would allow assessment of comparable sites and logistics management services provided interstate or with overseas regions (e.g. Canada).

Conclusion

The storage, handling and port loading system has tangible benefits for grain growers. Grain delivery in a timely, convenient, efficient and flexible manner with segregation options are of key importance during harvest. However, developments since the 2011 Select Committee investigated the Grain Handling Industry in South Australia²⁰ have seen limited change to the storage, handling and port loading choices, yet increasing supply chain costs lack transparency and are inevitably administered back to grain growers. Overall prosperity for grain growers is diminished and GPSA recommends ESCOSA undertake Part 2 of the Inquiry to find options to provide and address inefficient bulk grain supply chain costs.

¹⁹ Iron Road Limited (Iron Road, ASX:IRD) ASX & Media Announcement http://clients2.weblink.com.au/news/pdf_2%5C01853962.pdf

²⁰ FINAL REPORT of the SELECT COMMITTEE on the GRAIN HANDLING INDUSTRY

<https://www.parliament.sa.gov.au/HouseofAssembly/BusinessoftheAssembly/RecordsandPapers/TabledPapersandPetitions/Pages/TabledPapersandPetitions.aspx?TPLoadDoc=true&TPDocType=1&TPP=52&TPS=2&TPIItemID=69&TPDocName=Final%2BReport.pdf>